

CAPITALIST AND PROUD OF IT

By Michael Novak

Editor's Preview: Democratic capitalism, the system that has given the United States unparalleled wealth, freedom, and cultural richness, seems to be losing ground in the global war of ideas. Socialist notions, bankrupt as they are, continue seducing the emerging countries, placing our free-world on the intellectual defensive, and bemusing domestic liberals. Even many conservatives have not rallied to capitalism's defense.

To regain the initiative in this idea war, Americans must understand better what Adam Smith saw as the unique trinitarian character of our system—a democratic polity, a capitalist economy, and a pluralistic moral-cultural sphere mutually balancing one another. Our advocacy must celebrate not only the virtues of free enterprise, but also America's quieter strengths, like the role community plays in our lives, the way our creativity multiplies wealth, the edge diversity gives us in problem-solving.

The war of ideas can swing in freedom's favor, scholar Michael Novak concludes, if we take our stand as democratic capitalists and proud of it.

America with its system of democratic capitalism is engaged throughout the world in a war of ideas, a war which by several measurements we seem to be losing.

Around the world since 1948, 111 new nations have been formed. There were then 49, there are now about 160. Most of those new nations have chosen, or had chosen for them, forms of political economy that are not like ours. Today there still are not more than 30 democracies in the world, and every country that does function as a democracy, functions also as a capitalist system—that is, with a large private property sector, a large reliance on markets, and a clear reliance on incentives.

Yet a whole host of nations in our lifetime have chosen their form of political economy, and many are not choosing our way. Country by country, we can see



them—Nicaragua most recently, Angola, and so many others—making choices of political economy about which one can confidently predict they will end in depression and poverty.

There is no reason that commands people in the emerging nations to make these choices. But even if leaders of the Third World were trained in Paris or in London, or indeed at Harvard or MIT, they are nonetheless likely to choose a statist direction.

At the time of its revolution in 1972, Bangladesh put into effect an economic plan, designed at MIT and Harvard, according to which the government nationalized every industry in the country. *Americans* did that, not Soviets or Chinese. A decade later, every one of those industries is losing money, and the government, having run them into the ground, is now desperately trying to sell off what remains to private bidders. One could have predicted that, but Harvard and MIT didn't predict it.

im•pri•mis (im-pry-mis) adv. In the first place, from Latin *in primis*, among the first things...

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Another example of why I say we are in a war of ideas: I have served twice at the U.N. Human Rights Commission in Geneva, and I can report to you quite candidly out of those two experiences that few of our allies, even those who come from mixed economies, ever speak in defense of the capitalist part of their system and ours. When they speak of political economy at all, they defend the "caring," "compassionate," socialist side of the system. They do not resist the socialist rhetoric at all, rhetoric which permits those who consider themselves democratic socialists to speak the same language as the representatives of the Soviet Union and China. In economic matters, they use virtually the same concepts, virtually the same methods of analysis, and although some are thinking of democratic outcomes and others are not, the language is bewitchingly the same.

You hear a great deal about "obscene profit," and it seems to occur to no one that profit is simply another name for development. That is, in any economic activity, if you are not taking out more than you are expending—whether you call the surplus "capital accumulation" or "profit" or whatever—then you are spinning your wheels or going backward. This is a rule that applies to socialist regimes just as it does to capitalist regimes: each has to show capital accumulation or it is running itself into the ground. Yet at the U.N. many speak in favor of development at the same time they are against profits. It makes no sense at all,

About Michael Novak

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Before joining AEI in Washington, he had taught at Harvard, Stanford, and Syracuse. His numerous books include studies of the Presidency, sports in American life, and labor unions; two novels; and one of the most influential new works of the 1980s, *The Spirit of Democratic Capitalism*.

Various described as both a neo-liberal and a neo-conservative, he was twice appointed by President Ronald Reagan as Chief of the U.S. Delegation to the U.N. Human Rights Commission for its 1981 and 1982 sessions in Geneva.

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but nobody even argues the question. The arguments have been neglected for almost forty years now.

To Fight Back Willing and Well

How can we begin to turn this situation around? If we are to fight a war of ideas, two things are necessary. First we must be *willing* to fight. On program after program I am called by organizers, asking if I would please come to represent a point of view. Their tone of voice often gives me to understand that they regard it as the reactionary point of view, but in any case these people plead with me to come because they can't find anybody else. No doubt there are good reasons why spokesmen for democratic capitalism avoid many pre-stacked occasions, but nonetheless, our views are often not expressed.

Then, secondly, when we do express this point of view, it is important not to make fundamental mistakes, not to argue on terrain decided by our adversaries. It is very important to begin really looking at our society, this peculiar democratic capitalism that we have, and to understand it as it is.

For a very long time, throughout most of our history, it was not so essential for Americans to understand our system. Those who founded this country were so scarred by the era of religious wars through which they had just passed that they didn't want to set too high a threshold of metaphysics or faith or philosophy as an entrance price at the door. They wanted people to begin to live and act without stating explicitly their deepest personal principles, because they did not want us to be divided on them. They had the insight that human beings are able to do many things together even though they do them for quite different reasons, each out of a quite different metaphysics.

So it has long been argued that Americans have a great advantage because we are a practical people, not an ideological people. We don't have to debate with the Soviets over Marxism and Leninism and Adam Smith. If they need a bit that will drill deep enough to get their oil and they can't make it, they will have to come to us to get it. If we build a better mousetrap, the world will beat a path to our door.

But now that world of non-ideological common sense has passed away. Today we see ideas ruling the world. It is not practical common sense that is leading the people of Nicaragua and Angola and the rest in their drive to build a socialist order. They are being led by ideas—bad ideas—to create societies which, you can predict, will be disasters. The role of ideas in the world has acquired extraordinary salience.

Detractors Left and Right

Here in the United States, the attack on democratic capitalism and the weakness of our counter-attack have a couple of basic sources. One relates to certain real interests of groups in conflict, the other to some powerful intellectual currents.

There are now 16 million people working for all levels of government in the United States, and 16 million working for the major corporations that make up the *Fortune* 500—a virtual stand-off in terms of numbers. There is real money, real power, real influence at stake between these two portions of our elite. One group still thinks the way the old elite thought: the business of America is business, the way to move oneself and the country ahead is through the private sector. The other group, which has been called the “new class,” recognizes that power, wealth, and influence accrue to them in proportion as the government grows.

At issue are two radically different visions of political economy for this country. On the one side is the idea that this will be a better country if we have a caring,

of markets, or the interplay of freedom. They notice rather the effects of social conditioning and group behaviors of various kinds, which sets them up to think in a socialist vein even if they are not explicitly socialist in their politics.

For example, the social scientists talk and write a great deal about alienation. But suppose you were to look neutrally at the world without having read too many books, to see where alienation is most severe today among 160 nations. In which countries would you find the greatest alienation, and in which countries would you find the greatest personal satisfaction, the brightest hope for the future, the strongest appreciation of their own worth? The democracies, obviously, would score the best. Yet this is exactly the opposite of what you



compassionate government—which means a bigger government. On the other side is the idea that this will be a better country if we shrink and limit the role of government so as to encourage and stimulate the activities of individuals and associations outside of government. These two very different images of what will make a good country spring out of two quite different philosophies, and point to very different results in the distribution of power, wealth, and influence.

The second of these ideas, the idea of democratic capitalism, has been sharply on the defensive in the United States for several decades now, not only because of the growth of a new class but also because of intellectual traditions inherited from both the left and the right.

On the intellectual left, the social sciences tend to dominate. Marx himself conceived of socialism as social science applied. His fundamental assumption was that society, like nature, can be analyzed, taken apart, and put back together again in a more inventive and helpful way. Most people in the social sciences tend naturally to focus on those aspects of life which are statistically significant or subject to quantification. They do not catch in their methods of analysis very much about the free will of individual human beings, the role

would guess by reading sociological tracts on alienation.

But it is not surprising that those on the left are anti-capitalist. What is surprising is that so many leading conservative intellectuals in fields like history, literature, philosophy, and religion are also anti-capitalist. My good friend George Will writes his anti-capitalist column every three months. Russell Kirk runs his annually in *National Review*. It is quite typical for a certain type of literary, religious, or philosophical conservative to prefer the eighteenth century as the high point of human development. George Will describes himself as a “stained glass conservative.” I call him a “rose trellis conservative,” because George really does think that rural England was lovelier when there was a rose trellis over every cottage. No floors, no plumbing, no screens; but on the other hand no asphalt, no credit cards, no massage parlors.

From religious loyalists within conservative ranks, the attack on capitalism and the corporations can be especially potent, because the advent of democracy and capitalism has contributed to reducing the authority of religious institutions. The fact remains that democratic and capitalist countries tend also to be the most religious countries of the world. The United States, specifically, is at once the most democratic, the most capitalist, and

the most religious country in the world. Nonetheless it is true that some of the centrality of the religious leader in a pre-capitalist social order has been lost. He moves out of the center somewhat. The grandest and most inventive buildings in town are less often the cathedrals and more often the banks and universities.

For a variety of reasons, then, we have seen surprisingly little spirited defense of that particular blend of political economy called democratic capitalism coming even from conservative intellectuals in America today.

What Adam Smith Saw

The time has come for Americans both left and right to take a fresh look at democratic capitalism in order that we may begin to think and act effectively in its defense.



The place to begin is in 1776—not only with the Declaration voted in Philadelphia, but also with a book published in Edinburgh.

That was the year Adam Smith published his classic work, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith, for the first time in history, asked the right question. Even today most of the social science studies ask about the causes of poverty, which is the wrong question. Suppose you learn the causes of poverty; who wants it? The interesting question is the cause of wealth, and Adam Smith was the first to imagine that wealth could be systematically increased in a sustained way. He saw for the first time that economic development could occur, that the world was not trapped in an eternal cycle where you must forever have seven fat years followed by seven lean years.

In looking at the New World from Scotland, Smith observed two experiments taking place. He observed that South America had far richer resources than North America: fabulous gold, silver, and lead, compared to humble crops of corn and tobacco, the mainstays of a good but hard living being eked out by the people strung out along the Atlantic Coast. The rank and quality of people, too, favored South America: aristocrats, generals, colonels, brave soldiers rewarded for their

ices; while in North America there were many more moners, dissidents, the poor, criminals, refugees.

ut Smith predicted, in spite of all this, that South America would end in poverty and oppression because it reproducing a bankrupt idea—the idea of the Holy Roman Empire, dominated by great landed estates with nobility and peasants, a close union of church and state, a political economy run essentially by large landholders and the military. That system, he argued, could not have economically; it had never thrived in a thousand years of European history prior to 1776.

By contrast, Adam Smith argued that despite the relative poverty of North America, there would emerge on this continent unprecedented liberty and unparalleled prosperity. He attributed this, again, not to natural resources or population, but to its systemic idea. The Founders knew they were launching a new experiment in political economy, and so did Adam Smith, watching it from abroad, even before it was formalized in the Constitution.

Trinitarian System

Smith noted and admired two overriding characteristics of this new idea that was emerging in North America. One was the separation of church from the state, and the separation of the press from the state, and the separation of the universities from the state. This grew out of the principle that you cannot trust political leaders to make decisions of conscience or ideas or information, because the life of the spirit is too important to leave to politicians. It was an important idea, and a fairly new one, though it had already been established in Geneva and some free republics of Europe, and it was to a certain extent observed in Great Britain itself.

The second principle was even more striking: namely, that you can't trust political leaders to make economic decisions either. Therefore you must separate economic institutions as much as possible from the state. This was far more original. It was in place hardly anywhere in Europe, although again some free cities had been built around this principle.

In the United States, a whole continent was to be built around these two separations, these three quite independent systems.

There was to be a democratic political system, with human rights, electoral suffrage, constitutional procedures, checks and balances.

Then there was to be a capitalist economic system based on private property, markets, and incentives (meaning systematic inequalities).

And finally there was a third, separate moral-cultural system, with free-standing churches, universities, newspapers, later radio and television, associations of poets and philosophers—quite rich sets of institutions in the

moral-cultural sphere, institutions not entirely beholden to either the political system or the economic system.

All of this wisdom was summed up on American coins, on which was embossed the little inscription "In God We Trust." The meaning of that statement in practice is, "in nobody else."

The genius of the system is that by dividing the powers you allow no one to control all of it. It is a completely Jewish and Christian idea, based on a profound observation of human life. It is not accidental that it grew up in a culture in which people had long been taught the doctrine of original sin.

That doctrine warns us that every human being sometimes sins. It follows, therefore, that you cannot trust too much power to anybody. On the other hand, the orthodox teaching about original sin also points out that most people, most of the time, are generous, decent, responsible. The first principle makes democracy and capitalism and pluralism necessary. The second principle makes a system based on all three possible.

As an example of the interplay between the different parts of our system, look at the opening of the American West, a case study in what today is fashionably called "development."

The Congress very early devised the Homestead Act, so that we would not be opening the West with several great families ruling everything like another Argentina or El Salvador, or even like the American South with its large plantations. Instead you saw a governmental decision that the idea of the United States was to have as many property owners (capitalists) as possible, for the protection of democracy. Not only would ownership be thrown open to everybody who could come out and claim a homestead, but there would also be the land-grant colleges, on the principle that the cause of wealth is intellect. And it would be the government that would establish these colleges—not in order to direct life but in order to empower life. Later there would be the Extension Service, and then eventually rural electrification, the Highway Act, the great dams and irrigation systems.

This is not a libertarian vision; ours has been a very active government. But neither is it a socialist vision, because the democratic capitalist government imagines itself as empowering people, not managing them. It puts in place those institutions which permit free people to build a better life for themselves through individual action and voluntary association.

For the government to undertake direct steps to manage the farms, to manage development, would be the socialist idea. But simply to put in place some of the prerequisites of economic development which the private sector itself could not put in place—this is the democratic capitalist idea of development. It is a thoroughly American idea. It has been proven marvelously effective by our own history. And it is equally

applicable today in other settings around the world, settings where we need *not* be losing the war of ideas in the way we seem to be doing at present.

Understanding Ourselves Better

Fighting back in that war requires that we truly understand our system and argue for it on the basis of its genuine strengths, not with concepts about America that fail to do it intellectual justice.

We need, for example, a more lively appreciation of the notion of community, the strong rôle community has played in the American story. Most people who argue for our system in Rotary Clubs or Chambers of Commerce (as well as most Republican politicians) argue in terms of the individual. There is an emotional reason for that, but it is not an accurate reason. It reflects the experience of almost every entrepreneur. Most people who have started a business or made an invention have had the experience of everyone telling them it couldn't be done. Therefore it is obvious to the businessman that at so many places in one's life, there is nobody to rely on but oneself.

But this same entrepreneur, arguing for the individual, often fails to remember that his next step on the road to success, after that first lonely breakthrough, was to start a corporation. And the corporation, the most distinctive mark of democratic capitalist societies, is a social invention. It grows from an insight that economic tasks are too complicated to be fulfilled by one person alone or even by one generation alone; they need an organizational form which can transcend those limitations and endure. Moreover, this marvelous social institution depends for its success on an extraordinarily high range of social qualities.

Communism
Social cooperation is not a highly developed talent in most cultures. Most cultures, ironically, are either too radically individualist, or (an extension of the same trait) too family-centered. Neither individualism nor familism is as socially open and socially effective as the principle of free association. Our system is unusual in its strong emphasis on social skills. It has formed a new idea of community.

Think of any political campaign, when kids are brought out to go to Iowa, New Hampshire, or somewhere that they have never been, age 18, with their tennis shoes, and within 24 hours they are able to begin organizing a statewide campaign with nobody giving orders, no dictators, but with immense cooperative skills. Americans know how to do that characteristically, in whatever field of endeavor. Americans have developed a new and different type of historical personality—the communitarian personality. It is certainly not the rugged individualist we hear so much about.

Another of the fundamental ideas of democratic capitalism which we may tend to undervalue is the fostering of creativity and intellect. What answer did

Adam Smith arrive at for his famous question about the cause of the wealth of nations? Intellect, he concluded, causes the wealth of nations—not natural resources. Most of the things we call resources today were not known to be resources 200 years ago. Human resourcefulness, the applied intelligence of man, made them so.

Jacques Servan-Schreiber wrote a book in 1968 called *The American Challenge*. The American challenge, he said, was typified by astounding statistics like the fact that 70% of the chemicals sold in France that year had not even been in existence 10 years earlier, and that all of them were invented and manufactured in America. If this goes on, he said, France and the others will be completely owned by America. And how do the Americans do it? They have organized their lives to favor intelligence. Ours is the society in history which moves most quickly from a new idea to its manufacture to its widespread distribution.

Servan-Schreiber is an example of getting the point right. An example of getting it wrong is the ads and the political rhetoric you hear, warning that the United States will have to go on an energy diet, since our 6% of the world's population is using close to 40% of the world's energy. But that can't be true; think about it. For what the world meant by "energy" back in 1776 when Adam Smith was writing was the human back, horses and oxen, running water, the sun, the wind. Now the 6% of the world's population in the United States are not using 40% of the sun—not even Jane Fonda charges us with that. No, the energy we are using in such abundance is energy of our own creation.

It was in 1809 that the first person figured out how to make anthracite coal burn; everybody knew it burned hotter and longer, but you couldn't ignite it. But an American outside of Philadelphia figured out how to ignite it, thus opening up the anthracite fields of Pennsylvania, and so made possible the locomotive, the skyscraper, the ocean-going steamer, and so forth. It was in 1859 that an American dug the first oil well, also in Pennsylvania in Titusville. Then you had natural gas, you had the first electric light in New Jersey in 1878. In short, nearly all the things we now call energy were invented in the United States by the same 6% of the

world's population. And today some 60% of those energy resources—by the figures mentioned above—are being enjoyed by others around the world who share the fruits of our inventiveness.

A third point which we should stress in defending the American system, a point we have already looked at, is pluralism. A society is more likely to be creative and more likely to build community if it allows for a vast variety of human beings, attitudes, viewpoints, and values, providing ways for all of them to argue out their differences in public. Fire will be struck from these arguments, and a much larger range of possibilities will be conceived than if we were all homogeneous. This vision of the possibilities of pluralism depends very much on an anti-utopian recognition that you can't trust human beings too much.

This way of approaching matters is different from the libertarian political way. It is different from the classical economic way of defending free enterprise. It helps to explain why the United States as a system has been able to learn whatever we may have needed to learn from socialism, far more easily than socialism finds it possible to learn from us.

No Guarantee

The key is that we have such a broad base to work from. We recognize that there are important roles for government, for the polity. We allow for a great range of invention and possibility in the economic system. And we allow for an enormous range of moral and cultural values. Within this wide frame of reference we find it quite easy to learn lessons from almost anywhere and apply them, remake them, do them our way, and absorb them into our system.

The vitality, the ability to make a better life for our people and all peoples, the vision to respond positively to the future, are overwhelmingly present in America because of this unique trinitarian system.

But nothing guarantees that this system will endure forever. It is an experiment. Our failure to defend it well, with spirit and with intelligence, would be an unforgivable failure, a tragedy for the world.



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